

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON KHÂI-MA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Khâi-MA Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Khâi-MA Local Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

8. During my audit, material misstatements were identified in the corresponding figures in

the financial statements of Khâi-MA Local Municipality. As disclosed in note 33 to the financial statements, the municipality restated these figures.

Additional matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Material inconsistencies in other information included in the annual report

10. I did not receive the 2011/12 annual report at the date of this report. As a result, I could not draw a conclusion on the consistency between the financial statements, audit report and other information included in the annual report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

12. The annual performance was not prepared and submitted for audit purposes and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.

13. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPI)*.

14. The material findings are as follows:

Usefulness of information

Measurability

15. The *FMPPI*, chapter 3.3 states: "Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period." Further it states that "A useful set of criteria for selecting performance targets is the "SMART" criteria (Specific, Measurable, Achievable, Reliable and Time-bound).

- None of the targets included in the IDP were specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but chose not to apply the principles contained in the *FMPPI* due to staff constraints.
- None of the targets included in the IDP were measurable. This was due to the fact that management was aware of the requirements of the *FMPPI* but chose not to apply the principles contained in the *FMPPI* due to staff constraints.
- None of the targets included in the IDP were time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but chose not to apply the principles contained in the *FMPPI* due to staff constraints.

16. The *FMPPI* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use.

- None of the indicators included in the IDP were well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI due to staff constraints.
17. The *FMPPI* requires that it must be possible to validate the processes and systems that produce the indicator. None of the indicators relevant to all programmes were verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Strategic planning and performance management

19. The municipality did not give effect to its integrated development plan (IDP) and conduct its affairs in a manner which was consistent with this plan, as required by section 36 of the Municipal Systems Act and municipal planning and performance management, regulation 6.
20. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
21. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the development priorities and objectives set out in its IDP, as required by section 41 of the Municipal Systems Act.
22. The municipality did not measure and review performance at least once per year, with regard to each of its development priorities and objectives, and against its key performance indicators, as required by section 41 of the Municipal Systems Act.

Budgets

23. The municipality incurred expenditure that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
24. The mayor did not submit quarterly reports to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Annual financial statements, performance and annual report

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, receivables from exchange transactions, provisions, commitments, correction of errors, irregular expenditure, unauthorised expenditure, and the cash flow statement identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
26. The annual performance report for the financial year under review was not prepared as

required by section 46 of the Municipal Systems Act.

Audit committees

27. The council did not establish an audit committee, as required by section 166(1) of the MFMA.
28. The municipality did not appoint and budget for a performance audit committee, as required by municipal planning and performance management, regulation 14(2)(a).

Internal audit

29. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - it did not prepare an internal audit programme for the financial year under review.
 - it neither comprehensively advised the accounting officer nor reported to an audit committee.
30. Due to the lack of performance measurement, the internal audit unit could not audit the results of such, as required by section 45(a) of the Municipal Systems Act and municipal planning and performance management, regulation 14(1)(a).
31. Due to the lack of a performance management system, the internal audit unit could not assess the functionality of such system, as required by municipal planning and performance management, regulation 14(1)(b)(i).
32. Due to the lack of a performance management system, the internal audit unit could not assess whether such system complied with the requirements of the Municipal Systems Act, as required by municipal planning and performance management, regulation 14(1)(b)(ii).
33. Due to the lack of a performance management system, the internal audit unit could not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by municipal planning and performance management, regulation 14(1)(b)(iii).
34. Due to the lack of a performance management system, the internal audit unit could not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and a performance audit committee, as required by municipal planning and performance management, regulation 14(1)(c).

Procurement and contract management

35. Bid adjudication was not done by a committee which was composed in accordance with municipal supply chain management, regulation 29(2).
36. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by municipal supply chain management, regulation 43.
37. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by municipal supply chain management, regulation 13(c).

Human resource management and compensation

38. The municipal manager did not provide job descriptions for each post in the staff establishment, as required by section 66(1)(b) of the Municipal Systems Act.

39. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by municipal regulations on minimum competency levels, regulation 13.
40. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by the regulations on minimum competency levels, regulation 14(2)(a).
41. The municipal manager and senior managers directly accountable to the municipal manager did not have performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

42. The accounting officer did not take reasonable steps to prevent unauthorised, irregular, and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
43. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Revenue management

44. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.

Internal control

45. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

46. The Mayor did not develop and submit for adoption by the council, a performance management system to report on service delivery.
47. The position of accounting officer was held by a number of individuals, most of who served in an acting capacity, resulting in a lack of continuity in leadership.

Financial and performance management

48. Management appointed a service provider to compile the annual financial statements. However, they failed to adequately review these statements, which required material adjustments to ensure its fair presentation.
49. Management did not submit an annual performance report.
50. Management did not properly review and monitor compliance with applicable laws and regulations.

Governance

51. The internal audit unit did not function properly.
52. The accounting officer did not develop, implement and monitor a risk strategy to address the municipality's risks.
53. The council did not establish an audit committee.

Auditor-General

Kimberley

29 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence